

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 19638
[REDACTED],)	
)	DECISION
Petitioners.)	
_____)	

On April 21, 2006, the staff of the Tax Discovery Bureau of the Idaho State Tax Commission issued a Notice of Deficiency Determination to [Redacted] (taxpayers), proposing income tax, penalty, and interest for the taxable year 2002 in the total amount of \$1,144.

On May 25, 2006, the taxpayers filed a timely appeal and petition for redetermination. The taxpayers did not respond to the Tax Commission's hearing rights letter and have provided nothing further for the Tax Commission to consider. The Tax Commission, having reviewed the file, hereby issues its decision.

The Tax Discovery Bureau (Bureau) received information [Redacted] that a change was made to the taxpayers' 2002 [Redacted] income tax return. The Bureau reviewed the information [Redacted], compared it with the income tax return the taxpayers filed with Idaho, determined the change was applicable to the taxpayers' Idaho return, corrected the Idaho return, and sent the taxpayers a Notice of Deficiency Determination. In response to the Notice of Deficiency Determination, the taxpayers filed an amended 2002 Idaho income tax return. In addition to the change made by the Bureau, the taxpayers' amended return claimed additional schedule C expenses and a corrected schedule SE for self-employment tax.

The Bureau obtained additional information [Redacted] and determined the changes the taxpayers made on their amended Idaho income tax return were not made on their [Redacted]. The Bureau informed the taxpayers that the changes to their schedule C expenses and the

schedule SE self-employment tax were not allowed on their [Redacted] and therefore not allowed on their Idaho income tax return. The taxpayers did not respond. However, since the Bureau treated the taxpayers' amended return as a protest of the Notice of Deficiency Determination, the Bureau referred the matter for administrative review.

The Tax Commission sent the taxpayers a letter explaining the two methods available for redetermining a protested Notice of Deficiency Determination. The taxpayers did not respond. The Tax Commission sent a follow-up letter to the taxpayers but still received no response from them. Therefore, the Tax Commission decided the matter based upon the information available.

Idaho Code section 63-3002 states the intent of the Idaho Legislature regarding the Idaho Income Tax Act. It states that the Idaho Act is to be identical to the Internal Revenue Code as it relates to the measurement of taxable income, in so much as that the taxable income reported to Idaho is the same as that reported to the Internal Revenue Service, subject to the modifications in the Idaho law. The Bureau corrected the taxpayers' return based upon information it received [Redacted] and sent the taxpayers a Notice of Deficiency Determination. The taxpayers subsequently filed an amended return.

As previously stated, the taxpayers' amended return included additional changes to the taxpayers originally filed Idaho income tax return. Idaho Code sections 63-3068 and 63-3072 provide for the statute of limitations for issuing notices of deficiency determination and filing amended income tax returns for refund of the overpayment of tax, penalty, and interest. In general, both sections state that any changes or adjustments must be made within three years from either the due date of the return, without regard to extensions, or from the date the return was filed, whichever is later. An exception found in both code sections is when a change has been made as a result of a final federal determination. If this is the case, the period of limitations

is reopened and does not expire until the later of one year from the date of delivery of the final federal determination to the State Tax Commission by the taxpayer, three years from the due date of the return, without regard to extensions, or three years from the date the return was filed. In addition, if the general period of limitations has expired, only those specific items of income, deductions, gains, losses, or credits which were adjusted in the final federal determination are subject to adjustment for purposes of recomputing Idaho taxable income.

The taxpayers' 2002 return had a due date of April 15, 2003. The taxpayers filed their 2002 return April 23, 2003. The taxpayers' amended 2002 return was submitted on May 25, 2006, after the general statute of limitations had expired. The Bureau adjusted the taxpayers' 2002 Idaho return as a result of an adjustment [Redacted]. The taxpayers did not provide the Tax Commission with the information that a federal determination was made. It was not until the taxpayers received the Bureau's Notice of Deficiency Determination that they provided an amended return [Redacted].

The taxpayers' amended return included changes [Redacted]. Those changes are barred by the statute of limitations of Idaho Code section 63-3072. However, the adjustment the Bureau made was appropriate because it was within the exception to the general statute of limitations provided in Idaho Code section 63-3068.

Therefore, the Tax Commission upholds the Bureau's adjustment to the taxpayers' 2002 Idaho income tax return. The Bureau also added penalty and interest to the taxpayers' tax. The Tax Commission reviewed those additions and found them appropriate and in accordance with Idaho Code sections 63-3046 and 63-3045, respectively.

WHEREFORE, the Notice of Deficiency Determination dated April 21, 2006, is hereby APPROVED, AFFIRMED, and MADE FINAL.

IT IS ORDERED and THIS DOES ORDER that the taxpayers pay the following tax, penalty, and interest:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2002	\$ 927	\$ 46	\$ 243	\$ 1,216

Interest is computed to September 1, 2007.

DEMAND for immediate payment of the foregoing amount is hereby made and given.

An explanation of taxpayers' right to appeal this decision is enclosed with this decision.

DATED this ____ day of _____, 2007.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE BY MAIL

I hereby certify that I have on this ____ day of _____, 2007, served a copy of the within and foregoing DECISION by sending the same by United States mail, postage prepaid, in an envelope addressed to:

[REDACTED]

Receipt No.
